

**NORTH DAKOTA STATE
BOARD OF PHARMACY**

**FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

WITH INDEPENDENT AUDITOR'S REPORT

NORTH DAKOTA STATE BOARD OF PHARMACY

BOARD ORGANIZATION

OFFICERS OF THE BOARD

President

Gayle D. Ziegler, R.Ph.
Fargo

Treasurer

William J. Grosz, Sc.D., R. Ph.
Wahpeton

Executive Director

Howard C. Anderson, Jr., R. Ph.
Turtle Lake

MEMBERS OF THE BOARD

Laurel Haroldson, R. Ph.
Jamestown

Term expires May 2010

Gayle D. Ziegler, R. Ph.
Bismarck

Term expires May 2011

Rick L. Detwiller, R. Ph.
Bismarck

Term expires May 2012

Gary W. Dewhirst, R. Ph.
Hettinger

Term expires May 2013

Bonnie J. Thom, R. Ph.
Granville

Term expires May 2014



Harris W. Widmer
Charles E. Nord
Stanley N. Sandvik
Terrence P. Delaney
Robert D. Dale
Michael T. Schmitz

INDEPENDENT AUDITOR'S REPORT

To the Members
North Dakota State Board of Pharmacy
Bismarck, North Dakota


We have audited the accompanying statements of net assets of the **North Dakota State Board of Pharmacy**, a component unit of the State of North Dakota, as of June 30, 2009 and 2008 and the related statements of revenues and expenses, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects the financial position of the **North Dakota State Board of Pharmacy** as of June 30, 2009 and 2008 and the revenues and expenses and changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 2009 on our consideration of **North Dakota State Board of Pharmacy's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit in accordance with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 4 and page 14, are not a required part of the basic financial statements but are supplementary information required by Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


Bismarck, North Dakota
October 29, 2009

NORTH DAKOTA STATE BOARD OF PHARMACY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
2009

This discussion report is offered as an accompaniment to the audited financial statements of the North Dakota State Board of Pharmacy. It includes a narrative overview of the Board, and its financial activities for the year ended June 30, 2009.

The Board is a regulatory agency of the State of North Dakota. The 1890 Legislative Assembly passed pharmacy practice legislation codified in North Dakota Century Code Chapter 43-15. This Chapter requires the Governor to appoint a State Board of Pharmacy. The Board is responsible for examining and licensing applicants for licensure as pharmacists, pharmacy technicians and interns. It is also responsible for issuing Permits for operating Pharmacies, Wholesale Drug Manufacturer/Distributor/Reverse Distributor/Warehouse and for regulating and controlling the dispensing of prescription drugs, devices and the practice of pharmacy for the protection for the health, welfare and safety of the citizens of North Dakota. There are five members on the Board of Pharmacy, who hire an Executive Director and there is currently one additional administrative assistant, who works for the Board. The Board also operates a Prescription Drug Monitoring Program (PDMP) that employs one full-time employee and a twenty percent time pharmacist for that program.

The Board owns no real property and maintains their financial assets in cash or cash equivalents, along with a few items of office equipment and computer programs. Its revenues consist of licensing, permitting, application fees, late fees and interest income.

The Board received grant funds from the North Dakota Department of Human Services, Medical Services Division, to administer a PDMP. The grant period, as described in the grant agreement, is from August 1, 2007 through July 31, 2009. Grant funds received will not exceed \$225,000.

The Board received grant funds from the Department of Justice, Office of Justice Programs, to enhance the PDMP program. The grant period, as described in the grant agreement, is from September 1, 2008 through August 31, 2010. Grant funds received will not exceed \$400,000.

During the fiscal year ended June 30, 2009, the Board received a total of \$106,141 in grant funds.

FINANCIAL HIGHLIGHTS

The effect of pharmacy on the general public has been increasing and along with this, the number of licensees has been increasing. The Board continues to expand services to the people of North Dakota and licentiates, while at the same time revenues continue to increase beyond expenses. Our beginning equity position was approximately \$999,000 and our ending equity position was approximately \$1,120,000. The Board continues to expand its computer data base to offer online renewals and online verification of license information.

OVERVIEW OF FINANCIAL STATEMENTS

The financial statements are presented in the form of 1) Statements of Net Assets, 2) Statements of Revenues and Expenses, 3) Statements of Changes in Net Assets and 4) Statements of Cash Flows.

The Statements of Net Assets presents mostly the cash and cash equivalents held by the Board in addition to office equipment and computer programs with a net book value of \$20,887. The liabilities mostly consist of fees paid in advance and due to either the North Dakota Pharmacists Association, North Dakota State University College of Pharmacy, or the Northland Association of Pharmacy Technicians as part of a statutory obligation. Those individual license fees also pay their dues in their respective Associations. These funds are transferred to the Associations at the end of the quarter in which they are collected. In 2000, the Board designated their contingency fund to be equal to one year's net operating budget, so this balance continues to increase slightly each year.

The Statements of Revenues and Expenses and Changes in Net Assets comprise the usual activities of income from the licensure and permitting fees, as well as the usual expense in providing those services and for the Board of Pharmacy to fulfill their duties on a state, national and sometimes international basis.

The Statements of Cash Flows reflects pretty much the same information as the Statement of Revenues and Expenses with a decrease in capital assets purchased.

The Board has no short or long-term debt. The Board has no material liabilities other than short-term payroll obligations, deferred license revenue from license fees collected shortly before the license period began, and a two-year contract with the University of North Dakota, for Prescription Drug Monitoring Program Evaluation, ending December 30, 2010. Changes in financial position are the result of general operations and depreciation. These are reflected in the financial statements included herein.

Comparisons of budgeted figures with actual, generally amounts to a \$401,000 budgeted figure for revenues, which is consistent with prior year. Fiscal management and good business environment has positioned the Board with adequate resources and assets to look at some larger projects to benefit the public and profession.

Questions regarding this report may be directed to the Executive Director, Howard C. Anderson, Jr, R.P.H., by telephone (701) 328-9535 – email ndboph@btinet.net or by mail at: PO Box 1354 – Bismarck, ND 58502-1354.

NORTH DAKOTA STATE BOARD OF PHARMACY

STATEMENTS OF NET ASSETS JUNE 30, 2009 AND 2008

<u>ASSETS</u>	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash, checking and savings	\$ 268,206	\$ 384,115
Certificates of deposit	200,000	500,000
Grant receivable	26,911	4,575
Accrued interest receivable	<u>16,394</u>	<u>14,202</u>
Total current assets	<u>511,511</u>	<u>902,892</u>
NONCURRENT ASSETS		
Certificates of deposit	<u>751,304</u>	<u>217,865</u>
CAPITAL ASSETS		
Office equipment, at cost	78,610	80,521
Accumulated depreciation	<u>(57,723)</u>	<u>(58,019)</u>
Total capital assets	<u>20,887</u>	<u>22,502</u>
Total assets	<u>\$ 1,283,702</u>	<u>\$ 1,143,259</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 28,404	\$ 8,203
Accrued taxes payable	1,266	6,495
Accrued vacation payable	11,600	12,458
Deferred salary	700	700
Fees payable to ND Pharmaceutical Association	100	1,100
Fees payable to ND Pharmacy Technician's Association	-	18
Deferred revenue	102,775	93,300
Fees payable to internship program	<u>22,390</u>	<u>22,230</u>
Total current liabilities	<u>167,235</u>	<u>144,504</u>
NET ASSETS		
Unrestricted	715,268	599,296
Designated	380,312	376,957
Net investment in capital assets	<u>20,887</u>	<u>22,502</u>
Total net assets	<u>1,116,467</u>	<u>998,755</u>
Total liabilities and net assets	<u>\$ 1,283,702</u>	<u>\$ 1,143,259</u>

NORTH DAKOTA STATE BOARD OF PHARMACY
STATEMENTS OF REVENUES AND FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009			2008
	Operating Fund	Grant Fund	Total	
REVENUES				
Pharmacist's license	\$ 128,180	\$ -	\$ 128,180	\$ 124,130
Pharmacy permits	109,375	-	109,375	115,350
Wholesale drug license	117,600	-	117,600	120,000
Internship	4,480	-	4,480	4,740
Technician registration	15,328	-	15,328	13,883
Grant revenue	-	106,141	106,141	53,506
Miscellaneous fees and reimbursements	27,890	-	27,890	29,859
Interest	31,996	-	31,996	36,112
Total revenues	434,849	106,141	540,990	497,580
EXPENSES				
Executive director salary	89,066	-	89,066	91,015
Travel and meetings	44,744	9,573	54,317	59,910
Secretarial salaries	38,402	-	38,402	38,612
PDMP salaries	-	48,963	48,963	32,958
Compliance and investigation	16,685	-	16,685	16,271
Education funding	10,779	-	10,779	29,187
Legal and audit	7,343	-	7,343	8,654
Insurance				
Health and Life	15,139	239	15,378	18,072
Liability	1,817	-	1,817	1,391
Retirement plan	10,240	3,591	13,831	12,106
Payroll taxes	9,211	3,556	12,767	12,559
Printing	4,794	-	4,794	11,232
Depreciation	8,403	-	8,403	8,731
Office supplies and postage	11,087	5,147	16,234	13,294
Rent	7,425	1,200	8,625	8,800
Examinations	4,779	-	4,779	4,514
Dues and Subscriptions	4,025	200	4,225	3,076
Data base hosting fee	2,805	219	3,024	1,974
Telephone	2,883	-	2,883	2,785
Rule hearings/publication	4,123	-	4,123	-
Consulting	-	28,500	28,500	-
Contractual	-	12,402	12,402	-
Miscellaneous	13,839	2,099	15,938	23,314
Total expenses	307,589	115,689	423,278	398,455
REVENUES OVER EXPENSES	\$ 127,260	\$ (9,548)	\$ 117,712	\$ 99,125

NORTH DAKOTA STATE BOARD OF PHARMACY

STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>Unrestricted</u>	<u>Designated</u>	<u>Capital Assets</u>	<u>Total</u>
June 30, 2007	\$ 527,782	\$ 351,859	\$ 19,989	\$ 899,630
Excess of revenues over expenses	99,125	-	-	99,125
Equipment acquisitions	(11,244)	-	11,244	-
Depreciation	8,731	-	(8,731)	-
Increase designated net assets	<u>(25,098)</u>	<u>25,098</u>	<u>-</u>	<u>-</u>
June 30, 2008	599,296	376,957	22,502	998,755
Excess of revenues over expenses	117,712	-	-	117,712
Equipment acquisitions	(6,788)	-	6,788	-
Depreciation	8,403	-	(8,403)	-
Increase designated net assets	<u>(3,355)</u>	<u>3,355</u>	<u>-</u>	<u>-</u>
June 30, 2009	\$ <u><u>715,268</u></u>	\$ <u><u>380,312</u></u>	\$ <u><u>20,887</u></u>	\$ <u><u>1,116,467</u></u>

NORTH DAKOTA STATE BOARD OF PHARMACY

STATEMENTS OF CASHFLOWS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from license, permits, & fees	\$ 378,940	\$ 371,008
Cash received for internships	4,640	4,000
Cash received from grant income	83,805	48,931
Cash received for interest income	29,804	31,600
Cash received for miscellaneous income	27,890	29,859
Cash payments to suppliers for goods and services	(224,330)	(220,001)
Cash paid to employees for services	<u>(176,431)</u>	<u>(162,585)</u>
Net cash provided by operating activities	<u>124,318</u>	<u>102,812</u>
CASH FLOWS FROM CAPITAL ACTIVITIES		
Purchase capital assets	<u>(6,788)</u>	<u>(11,244)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	<u>(233,439)</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(115,909)	91,568
CASH AND CASH EQUIVALENTS, beginning of year	<u>384,115</u>	<u>292,547</u>
CASH AND CASH EQUIVALENTS, end of year	\$ <u><u>268,206</u></u>	\$ <u><u>384,115</u></u>
RECONCILIATION OF REVENUE OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
	<u>2009</u>	<u>2008</u>
Net cash provided by operating activities		
Revenue over expenses	\$ 117,712	\$ 99,125
Depreciation	8,403	8,731
Change in assets and liabilities		
Grant receivable	(22,336)	(4,575)
Accrued interest receivable	(2,192)	(4,512)
Accounts payable	20,201	3,473
Accrued taxes payable	(5,229)	(1,731)
Accrued vacation payable	(858)	5,396
Fees payable	<u>8,617</u>	<u>(3,095)</u>
Net cash provided by operating activities	\$ <u><u>124,318</u></u>	\$ <u><u>102,812</u></u>

NORTH DAKOTA STATE BOARD OF PHARMACY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

The North Dakota State Board of Pharmacy (the Board) is composed of five members, each of whom are registered pharmacists and members of the North Dakota Pharmaceutical Association, appointed by the governor for a term of five years. Pursuant to 45-15-06 of the North Dakota Century Code additional members can be appointed beyond the required number of five. The Board is responsible for examining and licensing applicants for registration as pharmacists, for issuing permits to operate pharmacies, and for regulating and controlling the dispensing of prescription drugs and the practice of pharmacy for the protection of the health, welfare and safety for the citizens of the state. Governing laws for the North Dakota State Board of Pharmacy are found in chapter 43-15 of the North Dakota Century Code.

Description of Funds

The Board follows the practice of reporting on the use of resources by specific funds. The operating fund is used to account for resources available for and used in the Board's regular activities. As of June 30, 2009, \$380,312 has been designated by the Board for additional educational, compliance and inspection costs of a nature not normally budgeted. The designated amount was set by the Board in its meeting in January 2000 as 100% of its annual budget for operating expenses.

Capital assets consist of office equipment stated at cost. These assets are owned and used in the Board's regular activities and are presented in the financial statements net of related depreciation.

Basis of Accounting

The financial statements of North Dakota State Board of Pharmacy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The accompanying financial statements present the activities of the Board. The Board has considered all potential component units for which the Board is financially accountable and other organizations for which the nature and significance of their relationships with the Board are such that exclusion would cause the Board's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Board to impose its will on the organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Board.

Based on these criteria, there are no component units to be included within the Board as a reporting entity and the Board is a component of the State of North Dakota as an administrative agency.

Basis of Presentation

Governments engaged only in a single business-type activity should present only the financial statements required for enterprise funds. Government-wide financial statements are the same as those presented herein.

NORTH DAKOTA STATE BOARD OF PHARMACY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary fund financial statements are reported using the *economic resources* measurement focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Board has only one major proprietary fund; which is the Operating Fund, which accounts for the operation of the Board.

The Board does not apply FASB Statements after November 30, 1989.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Board are licensures renewal fees and application fees. Operating expenses include administration expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Budget

The Board follows the procedures established by North Dakota law for the budgeting process. The budget may be amended with board approval.

Furniture and Equipment

Equipment is recorded at cost. Equipment with a cost of \$3,000 or more is capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives are not capitalized. Depreciation is recorded based on accelerated and straight-line methods over the estimated useful life of 5 years.

Cash and Cash Equivalents

Cash and cash equivalents consist of the cash, checking and savings accounts for purposes of the cash flow statements.

Deferred Revenues

Deferred revenues represent license and registration fees received in the current year for the next fiscal years activities.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amount reported in the financial statements. Actual results could differ from those estimates.

NORTH DAKOTA STATE BOARD OF PHARMACY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

Grant Revenue

The Board received grant funds from the North Dakota Department of Human Services, Medical Services Division, to administer a Prescription Drug Monitoring Program (PDMP). The grant period, as described in the grant agreement, is from August 1, 2007 through July 31, 2009.

The Board received grant funds from the Department of Justice, Office of Justice Programs, to administer the PDMP program. The grant period, as described in the grant agreement, is from September 1, 2008 through August 31, 2010. Grant funds received will not exceed \$400,000.

During the years ended June 30, 2009 and 2008, the Board received a total of \$106,141 and \$53,506, respectively, in grant funds.

Grant Receivable

Grant receivable is reimbursement requests sent to the state for reimbursement of expenses paid. The grant requires that the Board expend funds before a reimbursement request made. Grant receivable is from the North Dakota Department of Human Services and Department of Justice. The Board believes the amount is fully collectible, therefore no allowance for doubtful accounts is estimated.

NOTE 2 — CASH AND CERTIFICATES OF DEPOSITS

The Boards' checking account and certificates of deposit are deposited in three banks. Funds on deposit were not in excess of the federal insured limit at June 30, 2009. Certificates of deposit have varying maturities of up to 5 years and range from 2.82% to 4.00%. The certificates of deposit are held to maturity therefore recorded at cost.

The Board's funds are required to be deposited and invested with the designated depositories in accordance with the laws of North Dakota. North Dakota laws require all public deposits be protected by insurance, surety bond or collateral pledged by the financial institution. Pledged collateral must equal 110% of the deposits not covered by insurance or bonds.

The Board's cash and certificates of deposit are categorized to give an indication of the level of risk assumed by the Board at year-end. Category 1 includes deposits that were insured or registered or for which the securities are held by the Board or its agent in the Board's name. Category 2 includes uninsured and unregistered deposits for which the securities are held by the counterparty, or its trust department or agent in the Board's name. Category 3 includes uninsured and unregistered deposits for which the securities are held by the counterparty, or its trust department or agent but not in the Board's name. Category 4 includes funds on deposit that exceed the federal insured limit.

Fiscal year ending June 30, 2009

Description	1	2	3	4	Bank Balance
Cash-Checking	\$ 227,804	\$ -	\$ -	\$ -	\$ 227,804
Money Market Account	40,402	-	-	-	40,402
Certificates of Deposit	<u>951,304</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>951,304</u>
	<u>\$ 1,219,510</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,219,510</u>

(Continued)

NORTH DAKOTA STATE BOARD OF PHARMACY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

Fiscal year ending June 30, 2008

Description	1	2	3	4	Bank Balance
Cash-Checking	\$ 216,858	\$ -	\$ -	\$ -	\$ 216,858
Money Market Account	33,142	-	-	134,115	167,257
Certificates of Deposit	717,865	-	-	-	717,865
	<u>\$ 967,865</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 134,115</u>	<u>\$ 1,101,980</u>

NOTE 3 — RELATED PARTY TRANSACTIONS

In accordance with state law, the board also collects the annual dues for the North Dakota Pharmaceutical Association and for the North Dakota Pharmacy Technician's Association and remits these dues to the respective organization during the year. Total remitted to these two organizations the year ended June 30, 2009 was \$81,100 and \$9,135, respectively and during the year ended June 30, 2008 was \$75,400 and \$8,663, respectively.

NOTE 4 — OPERATING LEASE

The North Dakota State Board of Pharmacy leases a copier under an operating lease, the lease calls for monthly rental of \$221 plus tax. The lease term is 36 months ending May 25, 2009. The annual rent paid during the fiscal years ended June 30, 2009 and 2008, was \$2,431 and \$2,652, respectively. The lease was not renewed.

NOTE 5 — RETIREMENT PLAN

The North Dakota State Board of Pharmacy participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering all employees of the North Dakota State Board of Pharmacy. The plan provides retirement, disability and death benefits.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer. The North Dakota State Board of Pharmacy has elected to pay both the employee's and employer's share for a total of 9.12% of each participant's eligible salary. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. The North Dakota State Board of Pharmacy required and actual contributions to NDPERS for the years ended June 30, 2009 and 2008 were \$13,831 and \$12,106, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS.

NOTE 6 — RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986, the state and other political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The Board pays an annual premium to NDIRF for its general insurance coverage. The coverage by NDIRF is limited to losses of \$1,000,000 per occurrence. No claims from these risks have exceeded insurance coverage in any of the past three years.

NORTH DAKOTA STATE BOARD OF PHARMACY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 7 – FAIR VALUE MEASUREMENT

Management implemented *Fair Value Measurements* with the June 30, 2009 financial statements, which provides a framework for measuring fair value under GAAP. It also defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. *Fair Value Measurements* requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. It also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. The three levels of the fair value hierarchy under *Fair Value Measurements* are described below:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Board has the ability to access.

Level 2

Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level with the fair value hierarchy is based on the lowest level of an input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the Board's financial instruments at fair value as of June 30, 2009:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificates of deposit	\$ <u>951,304</u>	\$ <u>951,304</u>	\$ <u>-</u>	\$ <u>-</u>

NORTH DAKOTA STATE BOARD OF PHARMACY

**SUPPLEMENTARY FINANCIAL INFORMATION
JUNE 30, 2009**

NORTH DAKOTA STATE BOARD OF PHARMACY
STATEMENT OF REVENUES AND EXPENSES – COMPARED TO BUDGET
FOR THE YEAR ENDED 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Pharmacist's license	\$ 122,600	\$ 128,180	\$ 5,580
Pharmacy permits	106,000	109,375	3,375
Wholesale drug license	100,000	117,600	17,600
Internship	4,000	4,480	480
Technician registration	12,500	15,328	2,828
Grant revenue	-	106,141	106,141
Miscellaneous fees and reimbursements	21,550	27,890	6,340
Interest	<u>34,000</u>	<u>31,996</u>	<u>(2,004)</u>
Total revenues	<u>400,650</u>	<u>540,990</u>	<u>140,340</u>
EXPENSES			
Executive director salary	88,758	89,066	(308)
Travel and meetings	46,000	54,317	(8,317)
Secretarial salaries	50,923	38,402	12,521
PDMP salaries	-	48,963	(48,963)
Compliance and investigation	35,000	16,685	18,315
Education funding	15,400	10,779	4,621
Legal and audit	15,000	7,343	7,657
Insurance			
Health and Life	15,878	15,378	500
Liability	2,300	1,817	483
Retirement plan	12,208	13,831	(1,623)
Payroll taxes	9,969	12,767	(2,798)
Printing	11,000	4,794	6,206
Depreciation	3,000	8,403	(5,403)
Office supplies and postage	13,100	16,234	(3,134)
Rent	8,400	8,625	(225)
Examinations	7,000	4,779	2,221
Dues and Subscriptions	3,500	4,225	(725)
Data base hosting fee	22,000	3,024	18,976
Telephone	2,400	2,883	(483)
Rule hearings/publication	3,000	4,123	(1,123)
Consulting	-	28,500	(28,500)
Contractual	-	12,402	(12,402)
Miscellaneous	<u>15,476</u>	<u>15,938</u>	<u>(462)</u>
Total expenses	<u>380,312</u>	<u>423,278</u>	<u>(42,966)</u>
REVENUE OVER EXPENSES	<u>\$ 20,338</u>	<u>\$ 117,712</u>	<u>\$ 97,374</u>



Harris W. Widmer
Charles E. Nord
Stanley N. Sandvik
Terrence P. Delaney
Robert D. Dale
Michael T. Schmitz

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Members
North Dakota State Board of Pharmacy
Bismarck, North Dakota

We have audited the statements of net assets of the **North Dakota State Board of Pharmacy** (the Board), a component unit of the State of North Dakota, as of and for the year ended June 30, 2009 and have issued our report thereon dated October 29, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **North Dakota State Board of Pharmacy's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not to for the purpose of expressing an opinion on the effectiveness of **North Dakota State Board of Pharmacy's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **North Dakota State Board of Pharmacy's** internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal controls. We consider the deficiencies described in the accompanying schedule of findings responses to be significant deficiencies in internal control over financial reporting, reference numbers 09-01, 09-02, and 09-03.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Board's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weakness. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **North Dakota State Board of Pharmacy's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

North Dakota State Board of Pharmacy's response to findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Board's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, management, others within the Board and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Bismarck, North Dakota
October 29, 2009

NORTH DAKOTA STATE BOARD OF PHARMACY

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2009

SECTION 1 – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Auditor's Report Issued: Unqualified

Internal control over financial reporting

Material weakness(es) identified? No

Significant deficiency(ies) identified not considered to be material weakness(es)? Yes

Noncompliance material to financial statements noted? No

SECTION 2 – FINANCIAL STATEMENT FINDINGS

Significant Deficiencies

09-01 Preparation of GAAP Basis Financial Statements

Condition: Widmer Roel PC assists management in preparing financial statements that are presented, including footnote disclosures, in conformity with generally accepted accounting principles of the United States. This is not unusual in organizations of your size, but we believe management should constantly be aware of this condition.

Criteria: In light of recent auditing standards issued, as a matter of proper internal control, management should be responsible and capable of preparing financial statements in conformity with generally accepted accounting principles.

Effect: Proper internal controls are not in place to ensure that management is responsible and capable of preparing financial statements in conformity with generally accepted accounting principles.

Recommendation: The Executive Director should review all financial statement groupings and schedules documenting the calculation of amounts included in the notes to the financial statements. In addition, a current disclosure checklist from the AICPA should be reviewed and answered to ensure propriety and completeness of the footnotes.

Response: The Board agrees with the finding and will allow the Executive Director to review all financial statement groupings and schedules documenting the calculation of amounts included in the notes to the financial statements. In addition, a current disclosure checklist from the AICPA will be reviewed and answered to ensure propriety and completeness of the footnotes.

NORTH DAKOTA STATE BOARD OF PHARMACY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2009

09-02 Segregation of Duties

Condition: The limited number of accounting personnel prevents a proper segregation of duties necessary to ensure adequate internal control. This is not unusual in organizations of your size, but we believe management should constantly be aware of these conditions and realize that concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

Criteria: As a matter of proper internal controls proper segregation of duties is necessary.

Effect: Because of the lack of segregation of duties, adequate internal controls are not in place.

Recommendation: To reduce the risk created by the limited staff size, we recommend that the Board of Directors remain involved in the financial affairs of the Entity to provide oversight and independent review functions, which could include a review of activity in general ledger accounts and a summary of changes in net asset accounts and dual signatures on checks, such as the secretary or treasurer signature.

Response: The Board agrees with the finding and agrees to reduce the risk created by the limited staff size, by involving the Board Members in the financial affairs of the Entity to provide oversight and independent review functions, which could include a review of activity in general ledger accounts and a summary of changes in net asset accounts and dual signatures on checks, such as the secretary or treasurer signature.

09-03 Accrual Accounting

Condition: Accurate accrual accounting is not being maintained. In order to conform with accounting principles generally accepted in the United States of America (GAAP) accrual accounting must be maintained.

Criteria: Procedures should be in place to ensure that accrual accounting entries are made.

Effect: Because of the failure to make all the accrual accounting entries, the financial statements do not conform with GAAP accounting.

Recommendation: To ensure the financial statements conform with GAAP accounting, it is recommend that accrual accounting entries be made prior to the audit.

Response: The Board agrees with the finding and is in the process of updating the accounting system to ensure accrual accounting will be completed.